

Law Society of Scotland

Report and Consolidated Financial Statements

Year ended 31 October 2021

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Council's Report

Overview and Principal Activity

The Law Society of Scotland (the 'Society') is the professional governing body and regulator for Scottish solicitors. It promotes excellence among solicitors through the support and regulation of its members. It also promotes the interests of the public in relation to the legal profession. The Society was established by statute in 1949 and its core legislative framework is set out in the Solicitors (Scotland) Act 1980. All practising solicitors are members.

The Society operates through five directorates covering its main areas of work:

- regulation and standards;
- member services and engagement;
- education, training and qualifications;
- external relations;
- finance and operations.

Within these directorates a range of teams provide regulatory and representational services to members, the work of which is described within the 2021 Law Society of Scotland Annual Report. The Annual Report does not form part of these financial statements, is not subject to review by independent auditor and can be found on the Law Society of Scotland website.

The work of the Society is supported by solicitors and non-solicitor volunteers who contribute their time and expertise through many committees and working groups.

The Society also controls and administers the Client Protection Fund, the operating name of the Scottish Solicitors' Guarantee Fund (SSGF). The fund exists solely to protect clients who have lost money as a result of dishonesty of a solicitor or a member of their staff in connection with the practice of the solicitor. It is paid for entirely by solicitor firms without the use of taxpayer money from government. The fund is only available to clients who use solicitors who are employed by legal firms regulated by the Society.

Review of financial year

Group

In compliance with Financial Reporting Standard 102, the Society's financial statements have been consolidated with those of the Scottish Solicitors' Guarantee Fund (SSGF) and with The Law Society of Scotland Services Limited and presented as financial statements for the Group. The statutory basis, day to day management and governance oversight of the SSGF is unaltered by consolidation. The SSGF is included within the consolidated financial statements in recognition of the Society exercising control over the management, governance and operation of the fund.

As required by statute, all income received by the SSGF is legally ringfenced to meet only future claims and therefore not available under any circumstances for the Society's use. Similarly, the reserves of the SSGF are legally designated for that purpose and do not under any circumstances form part of the Society's free reserves. Control of the SSGF is, however, bestowed on the Society by law, and, more widely, the SSGF is considered to be of benefit to the Society in helping underpin the positive reputation of the profession.

Council's Report (continued)

Profit (prior to actuarial adjustments to defined benefit pension scheme) - Group

The Group reports a profit (prior to the actuarial adjustments to the defined benefit pension scheme) of £1,311,000 for the financial year ended 31 October 2021 (2020: £679,000). This comprises the following components:

	2021 £000	2020 £000
Law Society of Scotland	583	410
The Law Society of Scotland Services Limited	12	(12)
Scottish Solicitors' Guarantee Fund	716	281
Total - Group	1,311	679

Profit reported by the Group after actuarial adjustment was £1,203,000 (2020: £489,000).

Investments - Group

The Group's investment portfolios achieved significant growth during the year and the market values as at 31 October 2021 were as follows:

	2021 £000	2020 £000
Law Society of Scotland	3,677	3,095
The Law Society of Scotland Services Limited	106	90
Scottish Solicitors' Guarantee Fund	6,146	5,173
Total - Group	9,929	8,358

Cash - Group

Cash balances for the Group as at 31 October 2021 were as follows:

	2021 £000	2020 £000
Law Society of Scotland	11,665	11,905
The Law Society of Scotland Services Limited	130	130
Scottish Solicitors' Guarantee Fund (<i>not available for the Society's use</i>)	1,995	1,957
Total - Group	13,790	13,992

Council's Report (continued)

Reserves - Group

Group Reserves increased from £12,816,000 to £14,019,000 at the year end. The breakdown is as follows:

	2021 £000	2020 £000
Law Society of Scotland	5,953	5,478
The Law Society of Scotland Services Limited	226	213
Scottish Solicitors' Guarantee Fund	7,840	7,124
Total - Group	14,019	12,816

Reserves held by the SSGF are legally designated solely for the purposes of the SSGF and are not available to the Society. At 31 October 2021 the SSGF reserves were £7,840,000 (2020: £7,124,000).

Society

The Society reports a profit (prior to the actuarial adjustments to the closed final salary pension scheme liability) of £583,000 for the financial year ended 31 October 2021 (2020: £410,000)

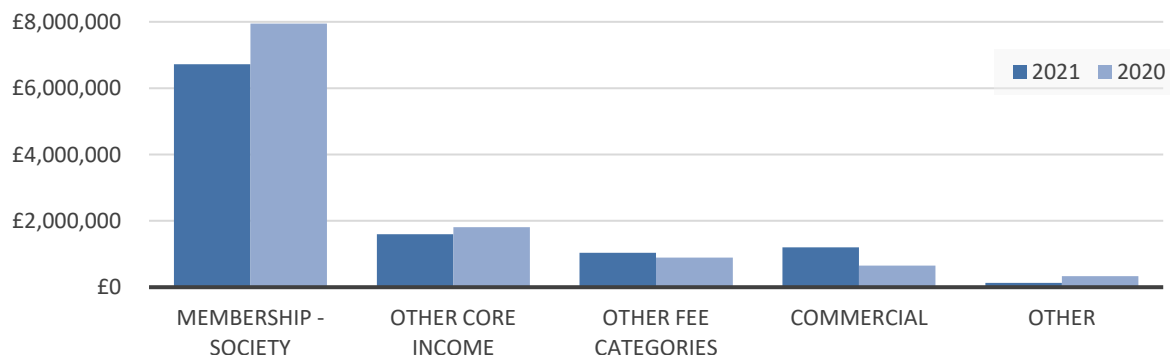
A significant gain of £618,000 on the value of the investment portfolio held by the Society contributed to the profit of the Society. The Society is investing in funds for the longer term and the portfolio is managed according to defined criteria. The investment objective is to achieve a balanced return, seeking long term capital gains and some income. A medium risk profile is adopted.

Overall performance against the budgeted operating loss of £1,500,000 for the year was exceptionally positive. The budget assumed a reduction in the number of members, which did not materialise. Income has been enhanced further by an increase in commercial income, including online events and training programmes, against budget. Operating costs were closely managed with savings against budget achieved, mainly due to limited in-person activity as a result of continued Covid restrictions and some vacancies in the year.

Profit reported by the Society after actuarial adjustment was £475,000 (2020: £220,000).

Operating Income - Society

Income for the year (excluding investment gains) was £10.6 million, a decrease of 8% from the previous year. Income is analysed as follows:



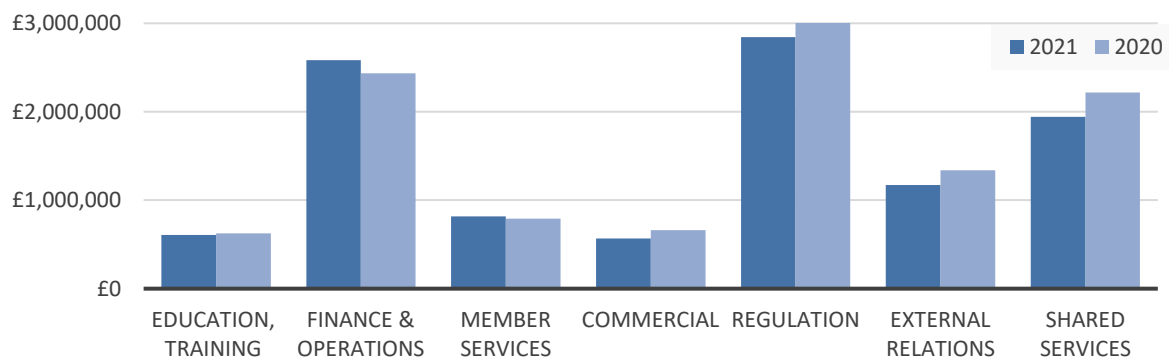
Council's Report (continued)

Membership income comprises practising certificates, retentions and non-practising member fees. Other core income comprises fees from regulatory activity. This includes an element of the Scottish Solicitors' Guarantee Fund accounts fee paid by firm principals towards financial compliance and interventions, recovery of costs awarded to the Society by the Scottish Solicitors Disciplinary Tribunal, and commission and recoveries from Judicial Factories.

The Society provided a support package amounting to circa £2.2 million over two years to the profession in the form of discounted membership fees. The practising certificate fee and accounts fee for the 2020/21 practising year were discounted by 20% resulting in a significant reduction in income compared to the previous year. This support package is delivered over two years, with a discount of 10% applied to both fee categories for the 2021/22 practising year.

Operating Expenditure - Society

Expenditure (excluding actuarial movements in closed pension scheme) was £10.5 million, a decrease of 5.3% from 2020. Expenditure is analysed as follows:



The Covid-19 pandemic resulted in significant reductions in Society activity from March 2020. Some of this reduced activity continued into the 2020/21 financial year and many activities were conducted virtually instead of in-person. Costs were managed closely throughout the year. Operating cost was less than the prior year in Regulation due to some staff vacancies and some changes in Financial Compliance operations, and in External Relations where engagement activity was restricted. Shared Services saw a reduction in costs compared to the prior year due to property costs savings while our office remained closed or restricted, reduced spend on legal and professional fees as well as a reduction in provisions for bad and doubtful debts. Continued investment in IT infrastructure and security is the main reason for the increase in spend compared to the prior year in Finance and Operations.

Pension debt and actuarial movement

The Society is responsible for a defined benefit pension scheme which was closed to future accrual from 1 May 2010. The most recent full actuarial valuation was carried out on 31 March 2019 by a qualified actuary, independent of the scheme's sponsoring employer.

The overall deficit shown by most recent valuation on 31 March 2019 was £1,423,000 (March 2016: £1,722,000) with the value of assets covering 86% (March 2016: 78%) of the value of the liabilities. The main reasons for the improvement in the funding level are the contributions paid by the Society over the intervaluation period, combined with better than expected investment returns and the adoption of new

Council's Report (continued)

mortality tables. However, these factors were offset by changing market conditions, falling gilt yields and rising inflation which resulted in an increase in the value of the liabilities.

The deficit recovery repayment plan agreed in 2017 has resulted in aggregate contributions of £1,559,000 in the three years to March 2020. The Society meets the scheme running costs as they fall due. The Society finalised negotiations with the scheme trustees in August 2020 to determine the next recovery plan. Following the finalisation of the March 2020 triennial valuation the next recovery plan was agreed covering a ten-year period. £170,000 was paid in March 2020 as year 1 of the revised plan. From March 2021 for nine years, £99,000 will be due to be paid annually, increasing at a rate of 5% per annum, with £104,000 due to be paid in March 2022.

Financial Reporting Standard 102 applies less prudent assumptions than those in the triennial actuarial valuation (as explained in note 13). Consequently, the sum paid to the scheme this year has resulted in a reduction in reserves as the FRS102 valuation resulted in a surplus. The valuation surplus is not carried as an asset in the financial statements as the Society does not have an unconditional right to any surplus funds remaining at the cessation of the scheme. The actuarial valuation reported a loss for the year of £108,000 (2020: £190,000).

At 31 October 2021 there was no scheme deficit for financial reporting purposes (2020: deficit £nil).

Reserves

The Society's reserves increased from £5.5 million to £6 million at the year end. The principal reasons for this movement were the better than budgeted membership and commercial revenue, good cost control throughout the year and the recovery in valuation of the Society's investment portfolio.

Council approved an updated Operating Reserves Policy in January 2021. The purpose of the Operating Reserve Policy is to ensure the stability of the activities and ongoing operations of the Society in support of the Society's strategy and annual operating plan. The Society's policy for operating reserves (excluding designated SSGF reserves) is to hold between three and six months' average operating cost for the Society. The policy makes provision for the lower end of this range, or the minimum target, to be varied to reflect changes in the overall business environment. The calculation of the monthly operating cost is based on projected expenditure in future periods. In setting reserve targets the Finance sub-committee also recognises the remaining operating lease commitment for the rent of the Society's premises (note 16), as reflected in future cash flow projections.

Operating reserves cover calculation as at 31 October 2021:

	£000
Total Capital Employed	5,953
Less: Net book value of fixed assets	<u>(1,269)</u>
Reserves per policy (A)	4,684
Projected operating and capital expenditure for the next 12 months –Society only (B)	12,252
Number of months' coverage from reserves (A / (B/12))	4.6 months

The Operating Reserves Policy makes provision for a recovery period in the event that the use of reserves has been approved by Council and the supporting financial forecast indicate that two or more consecutive future year ends may see reserves measured below the minimum target level. During a recovery period, additional reporting and monitoring is required, including the review of a rolling 12 month forecast by the

Council's Report (continued)

Finance Sub-committee and the Board on a quarterly basis. The above reserves cover calculation shows the Society hold sufficient reserves to meet the requirements of the reserves policy and so is not considered to be in a recovery period.

The Finance sub-committee reviews the appropriateness of the policy on an annual basis

Corporate Governance

Solicitors elect representatives to serve on the Society's Council, the Society's decision-making body. It has 31 members elected from geographical constituencies, up to nine co-opted members representing other interest groups and eight non-solicitor members. It meets regularly and is chaired by the President. It oversees the work of a wide range of committees and sub-committees. The work of the Council is supported by the Society's Board comprising office bearers, elected representatives and the Society's Chief Executive and the Senior Leadership Team.

The following individuals currently serve on the Society's Council:

Office Bearers:

President 2020/21

Vice President 2020/21

Past President 2020/21

Ken Dalling

Murray Etherington

Amanda Millar

Ex-officio:

Convener of the Public Policy Committee

Christine McLintock

Elected members for constituencies:

Aberdeen, Banff, Peterhead & Stonehaven

Michael Kusznir

Deborah Wilson-McCuish

Airdrie, Hamilton and Lanark

Paul Gostelow

Catherine Monaghan

Alloa, Falkirk, Linlithgow and Stirling

Ken Dalling

John Mulholland

Arbroath, Dundee and Forfar

Murray Etherington

Ayr, Dumfries, Kirkcudbright and Stranraer

Lauren Fowler

Sharon Fyall

Campbeltown, Dumbarton, Dunoon, Oban, Rothesay and Fort William

Philip Lafferty

Campbell Read

Cupar, Dunfermline and Kirkcaldy

Gwen Haggerty

Dingwall, Dornoch, Elgin, Inverness, Kirkwall, Lerwick, Lochmaddy,

Sheekha Saha

Portree, Stornoway, Tain and Wick

Serena Sutherland

Edinburgh

Christine McGregor

Susan Murray

Susan Oswald

Jim Stephenson

Sheila Webster

England and Wales

Naomi Pryde

Glasgow and Strathkelvin

Emma Crilley

Austin Lafferty

Anne Macdonald

David Mair

Ross Yuill

Greenock, Kilmarnock and Paisley

Peter Walsh

Louisa Doole

Council's Report (continued)

Haddington, Peebles, Jedburgh, Duns and Selkirk

Struan Ferguson
Patricia Thom
Euan Mitchell

Perth

Co-opted members:

New lawyers
Corporate & banking sector
Solicitor to the Scottish Government
Scottish solicitors outside of Great Britain
Scottish solicitor advocates
Crown Office & Procurator Fiscal Service
Third Sector
In-house lawyers

Charlotte Edgar
Andrew Hinstridge
Ruaraidh Macniven
Siobhan Kahmann
James Keegan QC
Stephen McGowan
Kirsty Thomson
Sheekha Saha
Vlad Valiente

Lay members:

Sue Carter
Fiona Larg
Derek McIntyre
Christine Walsh
Graham Watson

The following individuals currently sit on the Society's Board:

President
Vice President
Past President
Treasurer
Elected members:

Kenneth Dalling
Murray Etherington
Amanda Millar
Graham Watson
Paul Gostelow
David J Mair
Susan Murray
Sheila Webster
Jennifer Livingston

Co-opted member

Disclosure of information to auditor

The Council members who held office at the date of the approval of this Council report confirm that, so far as they each are aware, there is no relevant audit information of which the Society's auditor is unaware; and each Council member has taken all the steps that they ought to have taken as a member of the Society's Council to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

Going Concern

Council has a reasonable expectation at the time of approving the financial statements that the Society has adequate resources to continue its operations and meets its liabilities as they fall due for the foreseeable future. This conclusion has been reached from an assessment of three-year financial forecasts and scenario analysis. Key items and issues considered include a slight increase in the membership numbers for 2021/22, the approved reduction to 10% of the fees discount for 2021/22, the successful delivery of online events and training in 2020/21 and the continuation of strict cost and budgetary control. The Scottish Government has indicated that any potential new legislation as a result of the legal service reform review is unlikely until 2023 at the earliest, and therefore does not have an impact on the Society in the short term.

Council's Report (continued)

Key risks

Council has ultimate responsibility for the management of risk which is discharged through the Audit Committee. The Audit Committee reviews processes in place for risk management with reference to the corporate risk reports and through a programme of targeted internal audit activity.

The Senior Leadership Team review the risk register regularly. The risk register records corporate risks together with mitigating controls. Reports are made to Board and Audit Committee quarterly to ensure risks are properly recorded and relevant controls documented. Key current risks include:

Area	Risk	Mitigating Action
Legal services regulation	The risk that the Scottish Government agrees to implement the primary recommendation, following an independent review of the regulation of legal services, to create a new regulatory body, removing the Law Society's role in regulation and ending the mandatory membership fee	The Scottish Government has issued its planned consultation on reform to legal services regulation and responses were submitted before the 24 December 2021 deadline. An extensive communications plan was delivered in relation to the profession and stakeholders leading up to the response deadline. Ministers have made it clear that any new legislation is unlikely until 2023 at the earliest.
Covid 19 pandemic	The risk that we are unable to finance the business, caused by continued support to the profession in the form of discounted fees. This may result in reserves being depleted	The support package to members were implemented over a 2-year period and as part of the support plan, fees were discounted with 20% and 10% for the 2020/21 and 2021/22 years respectively. The recovery of fees to pre-pandemic levels for the 2022/23 financial year is expected and budgeted. Operating cost has been carefully managed in the 2020/21 financial year, resulting in an operating surplus for the year. The budget for the 2021/22 year was approved at a level which maintains the minimum required reserves cover.
Closed defined benefit pension scheme	The risk that our pension scheme deficit worsens, caused by insufficient funding and market volatility. This may result in a significant financial commitment	Close liaison with scheme Trustees, funding plans and de-risking of investments. An affordable recovery plan, accepted by the regulator was agreed during 2020, covering a 10-year period.

Council's Report (continued)

Key risks (continued)

Area	Risk	Mitigating Action
Cyber security	The risk that the Society's cyber security fails to protect the organisation from a cyber-attack or fails to enable the organisation to prepare for and respond to cyber security issues.	Numerous actions have been taken to improve cyber security. This includes increased mandatory staff training and awareness, auto penetration-testing software and a cyber security review conducted by external consultant. The annual operating plan for 2021/22 continues to focus on improving cyber security, with an action plan to address recommendations from the independent review and an IT and systems transformation programme aimed at replacing outdated systems and IT infrastructure.

Looking ahead

The budget approved by Council for the 2021/22 financial year reflects our aim to find a balance between delivering our business-as-usual services to the profession as efficiently as possible, delivering our ambitious operating plan as part of our interim 2-year strategy and targeting the further recovery of our reserves position.

The support package to members agreed to in 2020 resulted in a significant reduction in the Society's income over 2 years, assuming recovery to 2019/20 levels in 2022/23. This reduction in income has been offset mostly by savings in operating cost in both years, but the need to invest in resource and systems will put pressure on our budgets in future years if we want to improve our reserves cover substantially.

Ken Dalling
 President, Law Society of Scotland
 3 May 2022

Finance Sub-Committee – Convener’s report

Committee members

Graham Watson (Convener and Treasurer)
Catriona Maclean (resigned November 2021)
Derek McIntyre
Campbell Read
Serena Sutherland
Paul Gostelow

Governance and financial control

The Finance sub-committee reports directly to the Society’s Board.

The Finance sub-committee is specifically required to:

- determine financial controls and propose innovations in financial management
- maintain a register of key risks in relation to finance and resources
- set policy and supervise the procurement process of the Society
- provide advice on any other matters referred to it by the Board
- review the level and nature of the Society’s banking arrangements, investments, borrowings and insurance cover
- report on quarterly management accounts to the Board
- produce an annual report to the Board and Council
- make a recommendation to the Board on the budget for the coming year
- make a recommendation to the Board on the practising certificate and other fees for the forthcoming year

Overview

The sub-committee continues to work closely with the Executive, Audit Committee and Board. Five sub-committee meetings were held during the year under review as well as two joint meetings with the Audit Committee. The sub-committee monitored the recovery of reserves throughout the year, by reviewing regular full year forecasts and the budget for 2021/22, which was approved by Council in October 2021. Principal member fees had been agreed at the Annual General Meeting in May 2021 in line with the approved two-year support package to the profession. The sub-committee also approved a new investment policy for the Society. The sub-committee will remain actively engaged during 2021/22 to ensure that the recovery plans remain on track, while supporting the Society to meet its strategic goals.

Graham Watson
Treasurer
3 May 2022

Audit Committee – Convener’s report

Committee members

Fiona Larg (Convener)
Abigail Clark
Peter McCall
Deborah Wilson-McCuish

Gaynor MacLellan (Secretary)

Governance and membership

The Committee, working with the finance team and external auditor, ensured that the financial statements were audited and presented to the members on time at the Annual General Meeting in May 2021.

The Committee minute is reported to the Society’s Board and Council. The Committee Convener also formally reports on the Committee’s work at the annual general meeting of the Society.

Responsibilities

The work of the Committee is to review and report on the effectiveness of the Society’s arrangements for audit, internal control and risk management. The Committee oversees the appointment of and monitors the work carried out by the Society’s internal and external auditors. Informed by its consideration of the work of the auditors, the Committee comments and makes recommendations on the appropriateness, practical application and effectiveness of the Society’s financial policies and procedures, management controls and its arrangements to identify and manage risk.

The Committee reviews the following at each of its meetings:

- progress by the Society against its annual plan objectives especially in relation to their financial impact on the Society; and
- the Society’s risk register with emphasis on changes in the risk profile and actions taken to mitigate key strategic risks

Through that regular review the Committee will question the actions and judgements of the Society’s senior leadership team, the Board and the office bearers in relation to the Society’s financial stewardship, safeguarding of the Society’s assets and the extent to which the Society achieves best value in the acquisition and use of resources. The Committee oversees the Society’s relations with the external auditor. To this end it receives and comments on the Society’s annual financial statements prior to their approval by Council and receives the report from the external auditor in forming their opinion on the financial statements.

The Committee also commissions and oversees the delivery of an agreed programme of work from its appointed internal auditors. It will also follow up to ensure that recommendations contained in internal audit reports are implemented appropriately and within a reasonable timeframe.

The Committee will from time to time carry out reviews into or report on ad hoc matters as it may consider appropriate or as it is requested to do by Council or the Society’s office bearers in accordance with the Society’s protocols on such matters.

Audit Committee – Convener’s report (continued)

Overview

The Committee met on five occasions this year. Two of these meetings were with the finance sub-committee. These joint meetings ensured a joint approach to the review and approval of the financial statements for this year and the budget for 2021/22

The overall work of the Committee should continue to be seen within the context of the Society’s approach to good governance as the Committee plays a key role in holding the Society’s office bearers, Council and senior leadership team to account for the management of risk and the effective operation of all risk management systems.

The Committee reviewed the reports on three internal audits conducted by Wylie and Bisset.

The Committee was satisfied with the overall conclusion of the internal auditors and continues to closely monitor progress against the recommended actions.

A considerable proportion of the Committee’s time was spent reviewing the principal risks of the Society. Risk reporting has been improved this year to ensure robust discussion of the principal risks.

The exceptional hard work in the most demanding of years by Committee members and everyone in the finance team is recognised and appreciated.

Fiona Larg
Convener
3 May 2022

Statement of Council's responsibilities

Council of the Law Society of Scotland ('the Society') are responsible for preparing the financial statements of the Society in accordance with the constitution of the Society.

The constitution requires Council to prepare financial statements for each financial year. Under the constitution, Council have elected to prepare the Group and Society financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Council will not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Society and of the surplus or deficit of the Group and Society for that period.

In preparing these financial statements, Council are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

Council are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the constitution and UK GAAP. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Society's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Society's website is the responsibility of Council. Council's responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor's Report to the Council of the Law Society of Scotland

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Entity's affairs as at 31 October 2021 and of the Group's and Parent Entity's profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

We have audited the financial statements of Law Society of Scotland ("the Parent Entity") and its subsidiaries ("the Group") for the year ended 31 October 2021 which comprise the Group and Society income statements, the Group and Society statements of comprehensive income, the Group and Society statements of financial position, the Group and Society statements of changes in reserves, the Group and Society cash flow statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group's and Parent Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Council's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Council with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the Council of the Law Society of Scotland (continued)

Other information

The Council are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Council

As explained more fully in the statement of Council's responsibilities, the Council are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Council determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council are responsible for assessing the Group's and the Parent Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intend to liquidate the Group or the Parent Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

The procedures that we designed and executed included:

- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatements due to fraud. Areas of identified risk were then tested substantively;
- assessing the design and implementation of the control environment to identify areas of material weakness to focus the design of our testing;
- assessing the design and implementation of controls over the IT Systems relevant to financial reporting;
- reading minutes of meetings of those charged with governance;

Independent Auditor's Report to the Council of the Law Society of Scotland (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- reviewing correspondence with regulatory bodies and from legal advisors to identify indications of non-compliance with laws and regulations;
- determining whether the accounting policies and presentation adopted in the financial statements are in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice);
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in accounting estimates are indicative of a potential bias; and evaluating the business rationale of significant transactions that are unusual or outside the normal course of business;
- vouching balances and reconciling items in key control account reconciliations to supporting documentation as at 31 October 2021; and
- carrying out detailed testing, on a sample basis, of transactions and balances agreeing to appropriate documentary evidence to verify the completeness, existence and accuracy of the reported financial statements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Council, as a body. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Entity and the Council as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Chartered Accountants
Edinburgh, UK

Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED FINANCIAL STATEMENTS

Group and Society Income Statements

for the year ended 31 October 2021

	Note	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Continuing operations					
Subscriptions and other income	2	10,658	10,603	12,149	11,533
Employment costs	2,3	(6,356)	(6,356)	(6,516)	(6,516)
Other operating costs	2	(4,361)	(4,171)	(4,803)	(4,597)
Operating profit/(loss)	2	(59)	76	830	420
Gain/(loss) on fair value of investments		1,512	618	(421)	(115)
Income from fixed asset investments		222	79	226	83
Interest receivable and similar income	4	10	10	36	35
Profit before tax		1,685	783	671	423
Taxation on profit	6	(374)	(200)	8	(13)
Profit for the year		1,311	583	679	410

Group and Society Statements of Comprehensive Income

for the year ended 31 October 2021

	Note	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Profit for the year		1,311	583	679	410
Actuarial (loss) in defined benefit pension scheme	13	(108)	(108)	(190)	(190)
Total comprehensive income/(loss) for the year		1,203	475	489	220

The notes on pages 24 to 41 form part of these financial statements.

Group and Society Statements of Financial Position

As at 31 October 2021

	Note	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Fixed assets					
Tangible assets	7	1,269	1,269	1,597	1,597
Investments	8	9,929	3,677	8,358	3,095
		<u>11,198</u>	<u>4,946</u>	<u>9,955</u>	<u>4,692</u>
Current assets					
Cash and cash equivalents	9	13,790	11,665	13,992	11,905
Trade and other receivables	10	700	777	928	926
		<u>14,490</u>	<u>12,442</u>	<u>14,920</u>	<u>12,831</u>
Current liabilities					
Trade and other payables	11	(10,108)	(10,061)	(10,621)	(10,641)
		<u>(10,108)</u>	<u>(10,061)</u>	<u>(10,621)</u>	<u>(10,641)</u>
Net current assets		<u>4,382</u>	<u>2,381</u>	<u>4,299</u>	<u>2,190</u>
Non-current liabilities					
Creditors: due after more than one year	11	(1,227)	(1,227)	(1,385)	(1,385)
Provision for deferred tax	12	(334)	(147)	(53)	(19)
		<u>(1,561)</u>	<u>(1,374)</u>	<u>(1,438)</u>	<u>(1,404)</u>
Net assets		<u>14,019</u>	<u>5,953</u>	<u>12,816</u>	<u>5,478</u>
Reserves					
General funds		6,179	5,953	5,692	5,478
Scottish Solicitors' Guarantee Fund		7,840	-	7,124	-
		<u>14,019</u>	<u>5,953</u>	<u>12,816</u>	<u>5,478</u>

Approved by the Council of the Law Society of Scotland

President, Law Society of Scotland

3 May 2022

The notes on pages 24 to 41 form part of these financial statements.

Group and Society Statements of Changes in Reserves

for the year ended 31 October 2021

	Group			Society
	General Fund	Scottish Solicitors' Guarantee Fund	Total	General Fund
	2021 £000	2021 £000	2021 £000	2021 £000
1 November 2020	5,692	7,124	12,816	5,478
Profit for the year	595	716	1,311	583
Total profit for year	595	716	1,311	583
Actuarial (loss) on pension schemes	(108)	-	(108)	(108)
Other comprehensive loss for the year	(108)	-	(108)	(108)
Total comprehensive income for the year	487	716	1,203	475
31 October 2021	6,179	7,840	14,019	5,953

	Group			Society
	General Fund	Scottish Solicitors' Guarantee Fund	Total	General Fund
	2020 £000	2020 £000	2020 £000	2020 £000
1 November 2019	5,484	6,843	12,327	5,258
Comprehensive income for the year	398	281	679	410
Profit for year	398	281	679	410
Actuarial loss on defined benefit pension scheme	(190)	-	(190)	(190)
Other comprehensive loss for the year	(190)	-	(190)	(190)
Total comprehensive income/(loss) for the year	208	281	489	220
31 October 2020	5,692	7,124	12,816	5,478

The notes on pages 24 to 41 form part of these financial statements.

Group and Society Cash Flow Statements

for the year ended 31 October 2021

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Net cash generated from operating activities				
Profit for the year	1,311	583	679	410
Interest and dividends receivable	(223)	(80)	(242)	(98)
Notional interest (credit)/charge on pension liability	(9)	(9)	(20)	(20)
Taxation (credit)/charge	374	200	(8)	13
Depreciation charges	393	393	340	340
Loss/(gain) on sale of fixed assets and investments	(1,512)	(618)	422	115
Defined benefit pension scheme contributions	(99)	(99)	(170)	(170)
Decrease/(increase) in debtors	228	149	119	108
(Decrease)/Increase in creditors & provisions	(712)	(776)	627	750
Cash from operations	(249)	(257)	1,747	1,4448
Taxes paid	(54)	(37)	(71)	(53)
	(303)	(294)	1,676	1,395
Cash flows from investing activities				
Interest and dividends received	224	83	242	98
Payments to acquire investments	(1,171)	(482)	(1,352)	(484)
Receipts from sale of investments	1,113	518	1,002	375
Payments to acquire tangible fixed assets	(66)	(66)	(125)	(125)
Receipts from sale of tangible fixed assets	1	1	-	-
	101	54	(233)	(136)
Increase/(decrease) in cash during the year	(202)	(240)	1,443	1,259
Net cash & cash equivalents at the start of the year	13,992	11,905	12,549	10,646
Net cash & cash equivalents at the end of the year	13,790	11,665	13,992	11,905

Group and Society Cash Flow Statements (continued)

for the year ended 31 October 2021

Net debt reconciliation			
	1 November 2020 £000	Cash flows £000	31 October 2021 £000
Group			
Cash at bank	13,992	(202)	13,790
Total	<u>13,992</u>	<u>(202)</u>	<u>13,790</u>
Society			
Cash at bank	11,905	(240)	11,665
Total	<u>11,905</u>	<u>(240)</u>	<u>11,665</u>

Net debt reconciliation			
	1 November 2019 £000	Cash flows £000	31 October 2020 £000
Group			
Cash at bank	12,549	1,443	13,992
Total	<u>12,549</u>	<u>1,443</u>	<u>13,992</u>
Society			
Cash at bank	10,646	1,259	11,905
Total	<u>10,646</u>	<u>1,259</u>	<u>11,905</u>

The notes on pages 24 to 41 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 October 2021

Note 1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with accounting standards including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland". The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The financial statements are prepared in £ sterling and rounded to the nearest £ thousand.

The financial statements have been prepared on the going concern basis. Council has a reasonable expectation at the time of approving the financial statements that the Group and Society have adequate resources to continue their operations and meet their liabilities as they fall due for the foreseeable future. This conclusion has been reached having taken full consideration of the known and potential continued impacts from the Covid-19 outbreak

Basis of consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary undertaking, The Law Society of Scotland Services Limited, as well as The Scottish Solicitors' Guarantee Fund.

Non-consolidated entities

The following entities are not consolidated into the financial statements as they are not considered to be subsidiaries, associates or joint ventures as defined by FRS102; The Scottish Solicitors' Benevolent Fund and The Law Society of Scotland Education Foundation.

Income recognition

The Group recognises all categories of income on an accruals basis, recognising income as goods and services are delivered. Income, including membership subscriptions, is recognised in the period to which it relates.

Income received in advance which relates to future periods, or where services have not yet been provided or goods delivered, are held within liabilities as deferred income.

Due to the uncertain nature of Judicial Factories, any commission and recoveries are recognised only where the Society has received funds on notification of final settlement.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 1 - Accounting policies (continued)

Expenditure

Expenditure is recognised on an accruals basis as a liability is incurred which is as soon as there is a legal or constructive obligation committing the Group to the expenditure. Running costs include travel, accommodation, legal fees, professional subscriptions, and other direct costs.

Guarantee Fund Claims

Claims are recognised where the Fund has received a claim by 31 October 2021 which has subsequently been paid out.

Potential claims of which the Client Protection fund are aware, but have not yet crystallised, are not provided for within these financial statements because there is no conclusive way to determine the likelihood of the claim being accepted, or to accurately assess any value of the claim to be paid. Accordingly, these potential claims fail to meet the criteria for a provision and are regarded as unquantifiable contingent liabilities.

Taxation

The Society is liable for corporation tax on chargeable investment gains, investment income and assessable profits from commercial activity.

Provision is made for deferred taxation to the extent that timing differences are expected to reverse in future periods. Changes in deferred taxation on assets or liabilities are recognised as a component of tax expense in the Income Statement.

Operating lease

The Society leases the premises at 144 Morrison Street, Edinburgh. Lease incentives are released to profit or loss over the term of the lease.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis as follows:

Leasehold improvements	15 years
Office equipment, fixtures and furniture	3-10 years

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 1 - Accounting policies (continued)

Investments

Investments comprise investments in quoted and unquoted equity instruments which are measured at fair value where this can be measured reliably. Where fair value cannot be measured reliably then the investment is carried at cost less impairment. Changes in fair value are recognised in the income statement. The Group also has one investment in a subsidiary, The Law Society of Scotland Services Limited, for which the cost model has been adopted.

Trade and other receivables

Debtors are recognised at the settlement amount due. Prepayments are valued at the amount prepaid.

Cash and cash equivalents

Cash at bank and in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar.

Trade and other payables

Creditors and provisions are recognised where the Group has a present obligation resulting from a past event that will probably result in a transfer of funds to a third party, and where the amount due to settle the obligation can be measured or estimated reliably. Creditors and provisions are recognised at their likely settlement amount.

Pension scheme liability

The Group operates a defined benefit pension scheme providing benefits based on final pensionable pay (closed to new members from 30 June 2003 and closed to future accrual from 1 May 2010). The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. A pension scheme surplus is not carried as an asset in the financial statements as the Group does not have an unconditional right to any funds left at the cessation of the defined benefit pension scheme. Any pension scheme deficit is recognised in full. The movement in the scheme deficit is reported within other comprehensive income as actuarial gains and losses.

Employee benefits

The Group contributes to a group personal pension plan on behalf of certain employees. The assets of this scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Income Statement represents the contributions payable to the scheme in respect of the accounting period. Other short-term employee benefits are recognised as an expense in the period in which they are incurred.

Provision for liabilities

In cases where the in-house team director has been appointed by the Court to act as Judicial Factor, funds are advanced to cover direct costs including, but not limited to, storage costs, court and legal fees identified in the specific cases.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 1 - Accounting policies (continued)

During the administration of an estate, further loans are advanced until the Judicial Factor is able to secure sufficient funding from assets in the estate to continue to operate. If the Judicial Factor is unable to secure sufficient funding, the loans advanced will be immediately written off as an expense and provisions made to cover expected future costs. The provision is then adjusted based on the best available information. Where the Society requests the court to appoint an external Judicial Factor, the Society has a contractual obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the judicial factor as fixed by the Accountant of Court.

Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Group's accounting policies, Council is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. In preparing these financial statements, Council have made the following judgements:

- Actuarial assumptions in respect of the defined benefit pension scheme. In making these assumptions, advice has been taken from an independent, qualified actuary. The assumptions are all shown in note 13.
- Tangible fixed assets depreciated over a period to reflect their estimated useful lives. The applicability of the assumed lives is reviewed annually, taking into account factors such as physical condition, maintenance and obsolescence.
- Fixed assets are also assessed as to whether there are indicators of impairment. This assessment involves consideration of the economic viability of the purpose for which the asset is used.
- Determining whether leases entered into by the Group as a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

The following are the Group's key sources of estimation uncertainty:

- Potential claims of which the Client Protection Fund are aware, but have not yet crystallised, are not recognised within these financial statements as there is no conclusive way to determine the likelihood of any claim being accepted, or accurately assess the value of any claim to be paid.
- Recoveries from amounts spent on Judicial Factories, Client Protection Fund Claims and Scottish Solicitor Disciplinary Tribunal expenses are only recognised when a repayment is certain or agreement reached, which can occur several years after the related expenditure has been incurred.
- Deferred tax has been estimated based on available future corporation tax rates. It is not known what the corporation tax rate will be when the investments are sold.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 2 – Segmental Information

All segments of operating activity are continuing and are based in the UK. For management purposes the Society is organised into 5 directorates to reflect different operational and statutory functions. The individual segments of the Society, together with the consolidated entities, Scottish Solicitor's Guarantee Fund and Law Society of Scotland Services Limited, do not include any allocation of the Shared Service overhead.

Group Segmentation by Directorate	2021				2020			
	Subscriptions and other income £000	Employment Costs £000	Other direct costs £000	Operating profit/(loss) £000	Subscriptions and other income £000	Employment Costs £000	Other direct costs £000	Operating profit/(loss) £000
Membership income	8,480	-	-	8,480	9,987	-	-	9,987
Education, Training & Qualification	349	(560)	(46)	(257)	230	(558)	(67)	(395)
Finance and Operations	49	(1,679)	(903)	(2,533)	237	(1,615)	(821)	(2,199)
Member Services								
Non-Commercial	72	(422)	(7)	(357)	56	(441)	(7)	(392)
Professional Practice	-	(291)	(55)	(346)	-	(250)	(94)	(344)
Commercial	1,197	(210)	(398)	589	654	(309)	(353)	(8)
Regulation	511	(2,284)	(558)	(2,331)	369	(2,384)	(658)	(2,673)
External Relations	-	(910)	(260)	(1,170)	-	(959)	(379)	(1,338)
Shared Services	-	-	(1,945)	(1,945)	-	-	(2,218)	(2,218)
Scottish Solicitors' Guarantee Fund	-	-	(185)	(185)	616	-	(202)	414
LSS Services Ltd	-	-	(4)	(4)	-	-	(4)	(4)
	10,658	(6,356)	(4,361)	(59)	12,149	(6,516)	(4,803)	830

Education, Training & Qualification deal with all matters relating to the education, training and qualification of members. This includes policy aspects of pre- and post-qualification education and training; accreditation of providers of the components of the route to qualification; the registration and admission of trainee solicitors; the Society's equality and diversity work; work with schools; engagement with students and trainee solicitors; and the development of qualifications to underpin new categories of affiliate membership.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 2 – Segmental Information (continued)

Finance and Operations include the finance functions, registrar functions, IT, HR, central administrative services, facility management and business continuity functions. In the year £25,000 (2020: £190,000) of government grants were received in relation to the Coronavirus Job Retention Scheme as a result of placing a number of employees on furlough. These grants are recognised within the Finance and Operations segment as income.

Member Services comprise three main areas of responsibility. Professional Practice offers support and advice to members. Commercial activity includes the creation and delivery of events and webinars to members and the general public, as well as sourcing business sponsorship. The non-commercial team offer a wide range of member support services.

Regulation comprises teams dealing with complaints, financial compliance, interventions, rules and policy matters, and the Civil Legal Quality Assurance regime.

External Relations is responsible for the Society's communications, policy work, research, and international work. This includes representing the Society with Government, stakeholder groups and other influencers.

Shared Services consist of overheads and other costs shared across all Directorates, such as property costs, irrecoverable input VAT and depreciation.

Society Segmentation by Directorate	2021				2020			
	Subscriptions and other income £000	Employment Costs £000	Other direct costs £000	Operating profit/(loss) £000	Subscriptions and other income £000	Employment Costs £000	Other direct costs £000	Operating profit/(loss) £000
Membership income	8,480	-	-	8,480	9,987	-	-	9,987
Education, Training & Qualification	349	(560)	(46)	(257)	230	(558)	(67)	(395)
Finance and Operations	49	(1,679)	(903)	(2,533)	237	(1,615)	(821)	(2,199)
Member Services								
Non-Commercial	72	(422)	(7)	(357)	56	(441)	(7)	(392)
Professional Practice	-	(291)	(55)	(346)	-	(250)	(94)	(344)
Commercial	1,197	(210)	(398)	589	654	(309)	(353)	(8)
Regulation	456	(2,284)	(558)	(2,386)	369	(2,384)	(658)	(2,673)
External Relations	-	(910)	(260)	(1,170)	-	(959)	(379)	(1,338)
Shared Services	-	-	(1,944)	(1,944)	-	-	(2,218)	(2,218)
	<u>10,603</u>	<u>(6,356)</u>	<u>(4,171)</u>	<u>76</u>	<u>11,533</u>	<u>(6,516)</u>	<u>(4,597)</u>	<u>420</u>

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 3 – Employment Costs

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Salary	5,854	5,854	6,010	6,010
Pension	489	489	498	498
Temporary Staff	13	13	8	8
	<u>6,356</u>	<u>6,356</u>	<u>6,516</u>	<u>6,516</u>

The Group and Society employment costs include those of the key management personnel.

Senior Leadership Team

The senior leadership team are considered to be the key management personnel of the Society.

The senior leadership team are those persons having authority and responsibility for planning, directing and controlling the activities of the Society. The senior leadership team comprises the chief executive officer and the executive directors of the following five areas: education, training & qualifications; external relations; finance and operations; member services and regulation.

	Senior Leadership Team (excluding Chief Executive)		Chief Executive	
	2021 £000	2020 £000	2021 £000	2020 £000
Salary	466	467	179	179
Employer National Insurance	58	58	24	24
Pension	46	47	29	29
	<u>570</u>	<u>572</u>	<u>232</u>	<u>232</u>

The remuneration of the Chief Executive package, including employers NI and pension contributions, was £232,000 (2020: £232,000) which equates to 5.5x the median annualised salary of all other employees (2020: 5.4x).

Number of Employees by Directorate	2021	2020
Education, Training & Qualification	12	12
External Relations	18	18
Finance and Operations	35	35
Member Services	20	20
Regulation	44	44
	<u>129</u>	<u>129</u>

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 3 – Employment Costs (continued)

Office Bearers and Council Members

The President of the Society received emoluments of £79,445 (2020: £79,300), the Vice President received emoluments of £39,745 (2020: £39,600) and the Past President received emoluments of £8,275 (2020: £nil) in relation to their respective roles.

Council Members, when serving on the Board of the Society, receive an honorarium for their services of £2,600 (2020: £2,600). In the year a total of £21,768 was paid to 8 members of the Board (2020: £21,000)

Remuneration is also paid to the conveners of the various committees run by the Society. The aggregate total remuneration paid to all conveners in the year was £183,000 (2020: £183,000).

Note 4 – Interest receivable and similar income

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Interest Income				
Current Account	-	-	1	-
Deposit Account	1	1	15	15
Pension Scheme	9	9	20	20
	<u>10</u>	<u>10</u>	<u>36</u>	<u>35</u>

Note 5 – Auditor's remuneration

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Group external audit fees	36	30	37	31
Tax advisory fees	6	3	5	3
	<u>42</u>	<u>33</u>	<u>42</u>	<u>34</u>

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 6 – Corporation tax

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Current corporation tax charge	95	74	55	38
Adjustment in relation to prior year	(2)	(2)	-	-
Movement in deferred tax provision	281	128	(63)	(25)
	<u>374</u>	<u>200</u>	<u>(8)</u>	<u>13</u>
Reconciliation:				
Surplus for the year before tax	1,685	783	671	423
Corporation taxation at 19% (2020- 19%)	320	149	127	80
Deferred tax provision c/f	334	147	56	19
Deferred tax provision b/f	(56)	(19)	(117)	(44)
Income not subject to corporation tax	(2,235)	(2,053)	(2,213)	(2,143)
Expenditure not allowable for corporation tax	2,013	1,978	2,139	2,101
(Over) provision previous year	(2)	(2)	-	-
	<u>374</u>	<u>200</u>	<u>(8)</u>	<u>13</u>

The majority of the Society's income (and related expenditure) is not subject to corporation tax due to the Society's mutual status and associated mutual trade. The SSGF is not considered to be carrying out a trade and the surplus recognised in respect of its core activity is not considered to fall within any other sources of taxable income and therefore the majority of its income and related expenditure is not subject to corporation tax

Note 7 – Tangible Assets

Group and Society

	Leasehold improvements £000	Office equipment, fixtures and furniture £000	Total £000
Cost			
At 1 November 2020	1,424	1,627	3,051
Additions	-	66	66
Disposals	-	(4)	(4)
At 31 October 2021	<u>1,424</u>	<u>1,689</u>	<u>3,113</u>
Depreciation			
At 1 November 2020	466	988	1,454
Charge for year	95	298	393
Disposals	-	(3)	(3)
At 31 October 2021	<u>561</u>	<u>1,283</u>	<u>1,844</u>
Net book value 31 October 2021	<u>863</u>	<u>406</u>	<u>1,269</u>
Net book value 31 October 2020	<u>958</u>	<u>639</u>	<u>1,597</u>

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 8 – Investments

	Group	Society	Group	Society
	2021	2021	2020	2020
	£000	£000	£000	£000
Cost or Market value				
At 1 November	8,358	3,095	8,428	3,100
Additions	1,171	482	1,352	484
Disposal at opening market value	(983)	(448)	(1,049)	(395)
Unrealised gains/(losses)	1,383	548	(373)	(94)
At 31 October	9,929	3,677	8,358	3,095
<i>Comprises:</i>				
Listed investments	9,929	3,677	8,358	3,095
	9,929	3,677	8,358	3,095

The historical cost of listed investments at 31 October 2021 was Group £8,161,000 (2020: £7,929,000) and the Society £2,903,000 (2020: £2,838,000). The listed investments are valued monthly to market value (bid price).

The Society owns 100% of its subsidiary, The Law Society of Scotland Services Limited, registered at Atria One, 144 Morrison Street, Edinburgh, EH3 8EX. The purpose of The Law Society of Scotland Services Limited is to undertake certain commercial opportunities on behalf of the Society.

Note 9 – Cash and Cash equivalents

	Group	Society	Group	Society
	2021	2021	2020	2020
	£000	£000	£000	£000
Cash at bank	13,526	11,552	13,807	11,873
Cash held by investment manager	264	113	185	32
Cash and cash equivalents	13,790	11,665	13,992	11,905

Note 10 – Trade and other receivables

	Group	Society	Group	Society
	2021	2020	2020	2020
	£000	£000	£000	£000
Trade debtors	274	274	91	91
Other debtors	114	198	439	444
Prepayments and accrued income	312	305	398	391
	700	777	928	926

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 11 – Trade and other payables

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Fees in advance	7,633	7,633	6,631	6,631
Trade creditors	299	299	2,584	2,584
Corporation tax	94	73	55	39
Other taxation and social security	237	237	170	170
Other creditors	869	864	496	550
Accruals	976	955	685	667
	10,108	10,061	10,621	10,641
Accruals falling due after more than one year	1,227	1,227	1,385	1,385

Note 12 – Deferred Tax Provision

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Provision brought forward	53	19	117	44
Charge/(credit) for unrealised gains/losses on investments	281	128	(64)	(25)
Provision carried forward	334	147	53	19

Deferred Tax provision is made in respect of unrealised investment gains or losses of the listed investment portfolios held by the Society and the Group

Note 13 – Pension Schemes

Defined benefit pension scheme

The Society operates a defined benefit pension arrangement called The Law Society of Scotland Staff Retirement Benefits Scheme (the “Scheme”). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. The Society also operates a defined contribution scheme, but this is not included in these disclosures.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Society must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 March 2019 and the next valuation of the Scheme is due as at 31 March 2022. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected, it's possible that contributions may be reduced.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 13 – Pension Schemes (continued)

The Society meets the scheme running costs as they fall due. The Society finalised negotiations with the scheme trustees in August 2020 to determine the next recovery plan. Following the finalisation of the March 2020 triennial valuation the next recovery plan was agreed covering a ten year period. £170,000 was paid in March 2020 as year 1 of the revised plan. From March 2021 for nine years, £99,000 will be due to be paid annually, increasing at a rate of 5% per annum.

Explanation of amounts in the financial statements

Amounts recognised in the Statement of Financial Position at 31 October 2021	Value at 31 October 2021 £000	Value at 31 October 2020 £000
Fair value of assets	9,707	8,660
Present value of funded obligations	8,405	8,017
Valuation surplus	1,302	643
Impact of asset ceiling *	(1,302)	(643)
Recognised defined benefit asset/(liability) at 31 October 2021	-	-

* The valuation surplus is not carried as an asset in the financial statements as the Society does not have an automatic right to any surplus funds remaining at the cessation of the Scheme.

Amounts recognised in the Income Statement over the year	31 October 2021 £000	31 October 2020 £000
Current service cost	-	-
Interest on liabilities	(130)	(154)
Interest on assets	139	174
Past service cost	-	-
Settlement cost	-	-
Total	9	20

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 13 – Pension Schemes (continued)

Remeasurements over the year	31 October 2021	31 October 2020
	£000	£000
Loss/(gain) on scheme assets in excess of interest	(809)	(14)
Experience losses/(gains) on liabilities	12	(116)
Losses/(gains) from changes to demographic assumptions	10	42
Losses/(gains) from changes to financial assumptions	236	552
Impact of asset ceiling *	659	(274)
Total remeasurements	108	190

* The valuation surplus is not carried as an asset in the financial statements as the Society does not have an automatic right to any surplus funds remaining at the cessation of the Scheme.

Reconciliation of assets and defined benefit obligation

The change in the assets over the period was:

	31 October 2021	31 October 2020
	£000	£000
Fair value of assets at 1 November 2020	8,660	8,975
Interest on assets	139	174
Society contributions	99	170
Contributions by Scheme participants	-	-
Benefits paid	-	(673)
Change due to settlements	-	-
Return on Scheme assets less interest	809	14
Fair value of assets at 31 October 2021	9,707	8,660

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 13 – Pension Schemes (continued)

The change in the Defined Benefit Obligation over the period was:

	31 October 2021	31 October 2020
	£000	£000
Defined Benefit Obligation at 1 November 2020	8,017	8,058
Current service cost	-	-
Contributions by Scheme participants	-	-
Past service cost	-	-
Interest cost	130	154
Benefits paid	-	(673)
Change due to settlements	-	-
Experience loss/(gain) on defined benefit obligation	12	(116)
Changes to demographic assumptions	10	42
Changes to financial assumptions *	236	552
Defined Benefit Obligation at 31 October 2021	8,405	8,017

* See Actuarial Assumptions below.

Assets

The major categories of assets as a percentage of total assets are as follows:

Asset category	31 October 2021	31 October 2020
Corporate bonds	30%	33%
Diversified funds	69%	66%
Cash	1%	1%
Total	100%	100%

The return on the assets over the period was £948,000 (2020: £188,000).

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 13 – Pension Schemes (continued)

Actuarial assumptions

The principal assumptions used to calculate the Scheme's liability include:

	31 October 2021	31 October 2020
Discount rate	1.80% pa	1.60% pa
Inflation assumption (RPI)	3.60% pa	3.20% pa
Inflation assumption (CPI)	2.90% pa	2.40% pa
Pension increases – CPI limited to 5%	2.80% pa	2.40% pa
Pension increases – CPI limited to 3%	2.40% pa	2.10% pa
Pension increases – CPI limited to 2.5%	2.10% pa	1.90% pa
Revaluation in deferment	2.90% pa	2.50% pa
Post retirement mortality assumption	110% of S3PxA, projected with CMI 2020 - long term rate of improvement 1.5% pa, initial addition of 0%, 2020 weight parameter of 0% and smoothing parameter of 7.0	110% of S3PxA, projected with CMI 2019 - long term rate of improvement 1.5% pa, initial addition of 0% and smoothing parameter of 7.0
Tax free cash	Members are assumed to convert 25% of their pension into cash at retirement	Members are assumed to convert 25% of their pension into cash at retirement

Defined contribution pension scheme

The Society operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The total contributions paid in the year was £489,000 (2020: £498,000). At the year end contributions totalling £61,000 (2020: £63,000) were payable to the scheme and are included in other creditors.

Note 14 – Related party transactions

Scottish Solicitors' Benevolent Fund

The Council of the Law Society of Scotland has the sole power to amend the Declaration of Trust which established SSBF. At the year-end, a balance of £3,414 (2020: £85) was due to the Law Society of Scotland.

Legal services

Some Council members are partners of firms instructed by the Law Society of Scotland to provide legal services to the Society. Firms are appointed to the Society's panel of approved solicitors after a competitive tendering process. None of the office bearers' firms provided any services to the Society in the year.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 14 – Related party transactions (continued)

Law Society of Scotland Educational Foundation

The Society provides administrative support at no charge to Law Society of Scotland Educational Foundation (The Foundation), a registered charity. One staff member is a trustee. At the year end a balance of £370 (2020: £54) was due to the Foundation by the Law Society of Scotland in relation to donations received on its behalf.

Council, Board and Committee members

Transactions that the Society has with Office Bearers, Members of Council and the Society Board, either individually or through an entity that the member has significant influence over are considered to be related parties. Direct remuneration paid to members is covered in note 3.

Solicitor members are required to pay an annual practising certificate fee, which is charged on the same bases as all other members of the Society. Due to the nature of the Society's activities, such transactions with individual members, or their firms, have not been disclosed.

Highland and Islands Airports Limited

The previous Chief Executive, Lorna Jack, chairs the Board of Highlands and Islands Airports Limited (HIAL). Society income for the year includes £23,000 (2020: £26,000) from HIAL, the Chief Executive receives no additional remuneration from the Society in respect of this role. At 31 October 2021 a balance of £nil (2020: £nil) was owed to the Society.

McCash & Hunter LLP

The Society was invoiced a total of £nil (2020: £13,381) by McCash & Hunter LLP in the year for the services of Amanda Millar in her capacity as Vice President and committee convener. At 31 October 2021 a balance of £nil (2020: £nil) was owed by the Society to McCash & Hunter LLP in respect of these transactions.

Dalling Solicitors

The Society was invoiced a total of £62,877 (2020: £28,122) by Dalling Solicitors in the year for the services of Ken Dalling in his capacity as President, Vice President and committee convener. At 31 October 2021 a balance of £nil (2020: £nil) was owed by the Society to Dalling Solicitors in respect of these transactions.

Positive Leadership Limited

The Society was invoiced a total of £7,930 (2020: £5,924) by Positive Leadership Limited in the year for the services of Graham Watson in his capacity as Board member and committee convener. At 31 October 2021 a balance of £nil (2020: £nil) was owed by the Society to Positive Leadership Limited in respect of these transactions.

Austin Lafferty Limited

The Society was invoiced a total of £9,777 (2020: £7,988) by Austin Lafferty Limited in the year for the services of Austin Lafferty, a Council member, in his capacity as committee convener. At 31 October 2021 a balance of £nil (2020: £nil) was owed by the Society to Austin Lafferty Limited in respect of these transactions.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 14 – Related party transactions (continued)

Aside from the above noted transactions, the Society also transacts with Council Members, their firms or related entities in the normal course of business for legal, consultancy and recruitment services. The Society maintains a panel, run independently to the Council, which tenders from time to time for preferred suppliers of such services. This ensures that these transactions can be considered arms-length and no preferential treatment is given.

Note 15 - Contingent liabilities

In appointments of external Judicial Factors, the Society has an obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the Judicial Factors as fixed by the Accountant of Court. In cases where a potential shortfall is identified a provision representing the best available estimate of the liability is made within the financial statements. However, the Society may also have a liability in other cases where a Judicial Factor has been appointed but it is not possible to quantify the liability at the Statement of Financial Position date. The existence of these liabilities depends on the funds collected by the Judicial Factor in the administration of the estate and the Society may receive a refund or incur future costs in bringing the estate to a conclusion.

Guarantee Fund Claims intimated but not paid are subject to investigation and the sum claimed may or may not be admitted on the basis of whether the claim falls within the criteria of the Fund. If a claim is admitted, it may not be for the sum claimed. Many claims are straightforward and can be resolved quickly. However, in more complex cases or where the records left by the former firm are very poor, a longer resolution timescale will be necessary. In the absence of reliable information to the contrary, outstanding claims are treated as contingent liabilities at the sum intimated. As such, the total of claims intimated does not necessarily represent claims that will be paid. At 31 October 2021 these claims amounted to £1.318 million (2020: £1.652 million).

Note 16 - Commitments under Operating Leases

At 31 October the Society had the following minimum payments under non-cancellable operating leases:

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Land and Buildings:				
Within 1 year	559	559	531	531
Within 2 to 5 years	2,237	2,237	2,124	2,124
In 5 years or more	2,120	2,120	2,545	2,545
	4,916	4,916	5,200	5,200

Operating lease payments represent total rentals in respect of the Society's office premises at Atria One, Morrison Street Edinburgh from 1 November 2021 until the expiry date of the lease, 16th August 2030. The figures exclude any irrecoverable VAT, which will vary from year to year depending on income sources.

Notes to the financial statements (continued)

for the year ended 31 October 2021

Note 17 – Financial Instruments

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Financial assets:				
Financial assets measured at fair value	9,929	3,677	8,358	3,095
Financial assets measured at amortised cost	14,178	12,137	14,589	12,444
Financial liabilities:				
Financial liabilities measured at fair value	-	-	-	-
Financial liabilities measured at amortised cost	3,371	3,345	5,217	5,190

Financial assets and liabilities are initially measured at transaction price (including transaction costs).

The Group only has financial assets and liabilities which qualify as a basic financial instrument.

Financial assets measured at fair value comprise listed investments which are valued at market value (closing bid price).

Financial assets measured at amortised cost comprise cash and cash equivalents, trade debtors and other debtors.

The Group has no liabilities requiring measurement at fair value.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors and accruals.